

AUDITING PROCEDURES REPORT

Issued under P.A.2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name : Southeastern Oakland County Water Authority	County Oakland
Audit Date June 30, 2005	Opinion Date September 22, 2005	Date Accountant Report Submitted to State: December 22, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised,
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (PA. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Rehmann Robson			
Street Address 5750 New King Street, Suite 200	City Troy	State MI	Zip 48098
<div>Accountant Signature Thomas E. Darling, CPA</div> 			



**SOUTHEASTERN OAKLAND COUNTY
WATER AUTHORITY**

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED
JUNE 30, 2005**

SOUTHEASTERN OAKLAND COUNTY
WATER AUTHORITY
Basic Financial Statements and Supplementary Information
For the Year Ended June 30, 2005

Table of Contents

	<u>Page</u>
 <i>FINANCIAL SECTION</i>	
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-9
Basic Financial Statements:	
Statement of Net Assets	10
Statement of Revenues, Expenses and Changes in Net Assets	11
Statement of Cash Flows	12
Notes to the Financial Statements	13-23
Required Supplementary Information:	
Schedule of Funding Progress – Employees Retirement System	24
 Supplementary Schedules:	
Schedule of Budget Analysis	25
Schedule of Budgeted Operating Expense Analysis	26-31
Schedule of Accounts Receivable and Analysis of Charges	32
Schedule of Working Capital Analysis	33
 Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements In Accordance with <i>Government Auditing Standards</i>	 34-35



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

INDEPENDENT AUDITORS' REPORT

September 22, 2005

Members of the Board
Southeastern Oakland County
Water Authority
Oakland County, Michigan

We have audited the accompanying basic financial statements of the ***Southeastern Oakland County Water Authority***, as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the ***Southeastern Oakland County Water Authority's*** management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the ***Southeastern Oakland County Water Authority***, as of June 30, 2005, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2005, on our consideration of the ***Southeastern Oakland County Water Authority's*** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis listed in the table of contents on Pages 3 through 9 and the Schedule of Funding Progress on Page 24 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the *Southeastern Oakland County Water Authority's* basic financial statements. The supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, prominent 'L' at the beginning.

***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY ROYAL OAK, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Southeastern Oakland County Water Authority (the "Authority"), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

Water sales were substantially under budget for the fiscal year ended June 30, 2005. Actual water sales were 1,341,680 thousand cubic feet compared to budgeted water sales of 1,458,600 thousand cubic feet. For the fiscal year, sales were 116,920 thousand cubic feet, or 8.0%, less than budgeted. Water sales were lower than budgeted for each month of the fiscal year except for June. As a result, total revenues were \$1,090,911 below budget. While operating expenses were also below budget, there was insufficient revenue to cover the bond principal and interest payments. Money was removed from the net assets of the Authority in order to fully pay the bond principal and interest payments.

A significant rate increase (\$0.40 per thousand cubic feet) was put into effect on July 1, 2005 in order to begin to address this debt coverage issue.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements. The Authority's basic financial statements comprise two components: 1) financial statements and 2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Financial statements. The *financial statements* are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Authority's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in total net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *statement of revenues, expenses and changes in net assets* presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The Authority is a single purpose business-type activity. As such, charges for services are intended to recover all or a significant portion of the costs to provide services. The business-type activity of the Authority

**SOUTHEASTERN OAKLAND COUNTY
WATER AUTHORITY
ROYAL OAK, MICHIGAN**

MANAGEMENT'S DISCUSSION AND ANALYSIS

includes providing water services to member communities.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. Please refer to the Notes to the Financial Statements section of this report.

Other information. In addition to the basic financial statements, this report also presents certain *required supplementary information*. This is limited to defined benefit pension plan information and to this management discussion and analysis.

Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the Authority's financial position. In the case of the Authority, assets exceeded liabilities by \$11,599,419 at the close of the most recent fiscal year.

By far the largest portion of the Authority's net assets is invested in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Authority uses these capital assets to provide services to its member communities; consequently, these assets are *not* available for future spending. Although the Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. A portion of the Authority's net assets is restricted and the unrestricted net assets are in a deficit.

**SOUTHEASTERN OAKLAND COUNTY
WATER AUTHORITY
ROYAL OAK, MICHIGAN**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Authority Net Assets

	Business-Type Activities	
	2005	2004
Current assets	\$ 1,701,360	\$ 1,403,973
Restricted assets	1,340,871	1,247,631
Other assets	323,000	357,216
Capital assets, net	<u>17,285,482</u>	<u>17,828,776</u>
Total assets	<u>20,650,713</u>	<u>20,837,596</u>
Current liabilities	2,779,448	2,307,017
Noncurrent liabilities	<u>6,271,846</u>	<u>6,743,477</u>
Total liabilities	<u>9,051,294</u>	<u>9,050,494</u>
Net assets:		
Invested in capital assets, net of related debt	11,155,482	11,223,776
Restricted assets	752,039	751,300
Unrestricted (deficit)	<u>(308,102)</u>	<u>(187,974)</u>
Total net assets	<u><u>\$ 11,599,419</u></u>	<u><u>\$ 11,787,102</u></u>

Operating activities and depreciation decreased the Authority's net assets by \$(40,780), accounting for 22% of the change in the Authority's net assets for the current year. Non-operating revenue and expense accounted for the remaining \$(146,903) decrease in net assets. Key elements of this decrease are as follows:

- Operating results are very similar to the prior year. Operating expenses exceeded operating revenues by approximately three percent.
- Bond interest expenses were not covered by operating revenues.

**SOUTHEASTERN OAKLAND COUNTY
WATER AUTHORITY
ROYAL OAK, MICHIGAN**

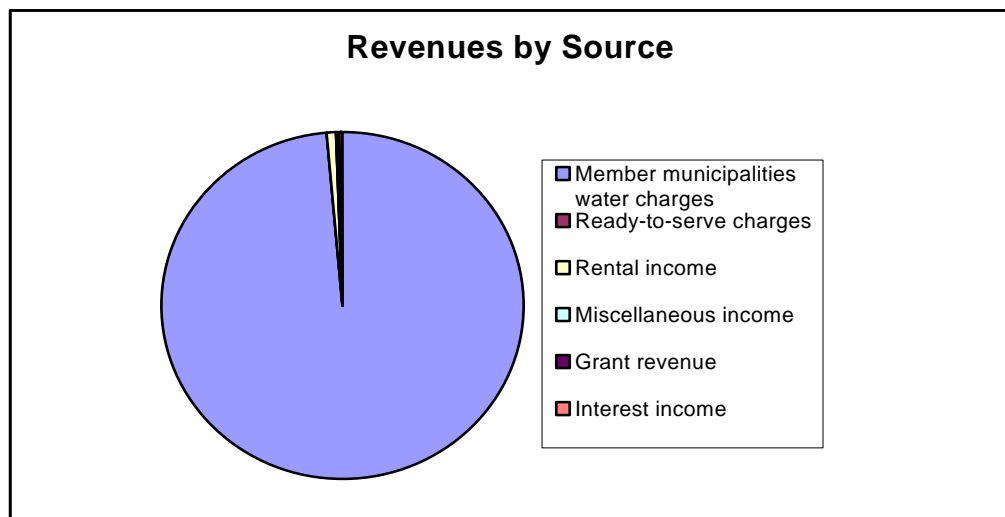
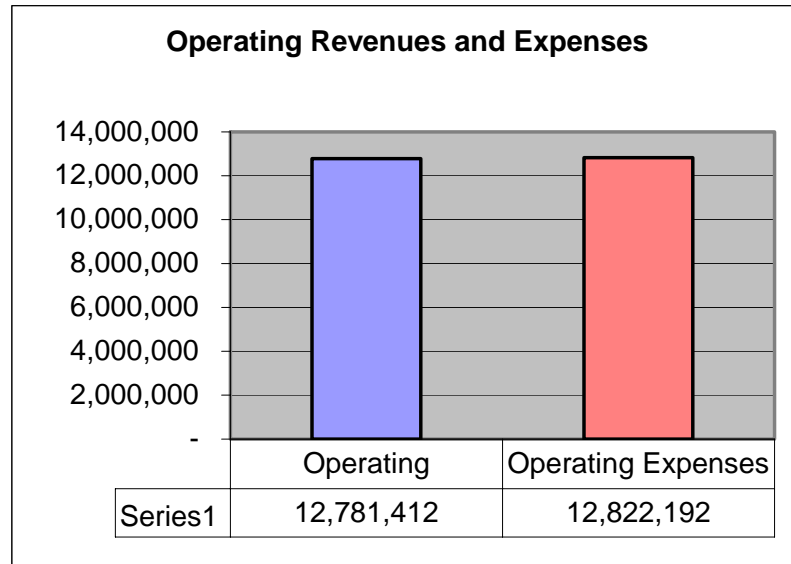
MANAGEMENT'S DISCUSSION AND ANALYSIS

Authority Changes in Net Assets

	Business-Type Activities	
	2005	2004
Revenue:		
Charges for services	\$ 12,690,953	\$ 11,747,377
Rental	85,044	72,007
Operating grants and contributions	56,385	65,687
Interest and other	29,790	42,810
Total revenue	<u>12,862,172</u>	<u>11,927,881</u>
Expenses:		
Operating expenses	12,199,771	11,492,485
Depreciation and amortization	622,421	482,267
Interest expense	227,663	339,797
Total expenses	<u>13,049,855</u>	<u>12,314,549</u>
Change in net assets	(187,683)	(386,668)
Net assets, beginning of year	<u>11,787,102</u>	<u>12,173,770</u>
Net assets, end of year	<u><u>\$ 11,599,419</u></u>	<u><u>\$ 11,787,102</u></u>

**SOUTHEASTERN OAKLAND COUNTY
WATER AUTHORITY
ROYAL OAK, MICHIGAN**

MANAGEMENT'S DISCUSSION AND ANALYSIS



**SOUTHEASTERN OAKLAND COUNTY
WATER AUTHORITY
ROYAL OAK, MICHIGAN**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Asset and Debt Administration

Capital assets. The Authority's investment in capital assets for its activities as of June 30, 2005, amounted to \$17,285,482 (net of accumulated depreciation). This investment in capital assets includes land, buildings, pumping stations, elevated tanks, reservoirs, equipment and infrastructure. The total decrease in the Authority's investment in capital assets for the current fiscal year was -3%.

Major capital asset events during the current fiscal year included the following:

- Replacement of the heating and air conditioning system for the Webster office
- The meter SCADA pilot project

Authority Capital Assets
(net of depreciation)

Land	\$ 1,026,171
Construction in progress	8,630
Pumping stations	3,520,004
Elevated tanks	1,978,997
Reservoirs	2,292,791
Scada system	1,718,187
Transmission mains and accessories	15,660,626
Meters	1,076,840
Webster office	293,435
Equipment and other assets	1,431,436
Less: accumulated depreciation	<u>(11,721,635)</u>
Total capital assets, net	\$ <u>17,285,482</u>

Additional information on the Authority capital assets can be found in Note II-C of this report.

**SOUTHEASTERN OAKLAND COUNTY
WATER AUTHORITY
ROYAL OAK, MICHIGAN**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Long-term debt. At the end of the current fiscal year, the Authority had total debt outstanding of \$6,130,000 made up entirely of the Series 2003 water system revenue refunding bonds.

The Authority's total debt decreased by \$475,000 or (7.2%) during the current fiscal year.

The Authority is currently rated for Baa1 by Moody's and A- by Standard & Poors for general obligation bond issuance.

Additional information on the Authority's long-term debt can be found in Note II- D of this report.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the Authority's budget for the 2005-2006 fiscal year:

- Increased employee wages cost of 3%.
- Increased health insurance cost of 10%.
- Increased property and liability and worker's compensation insurance costs of 5%.
- Water rates were increased by \$0.40 per 1,000 cubic feet. This increase reflects the recent \$0.02 increase for water purchased from the City of Detroit and a \$0.38 increase for the operations of the Authority.

Requests for Information

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the General Manager, 3910 W. Webster, Royal Oak, Michigan 48073.

***BASIC FINANCIAL
STATEMENTS***

**SOUTHEASTERN OAKLAND COUNTY
WATER AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30, 2005**

ASSETS	
Current assets	
Cash and cash equivalents	\$ 161,980
Accounts receivable	1,399,585
Grant receivable	30,749
Other receivable - related party	56,143
Other current assets	52,903
Total current assets	<u>1,701,360</u>
Restricted assets	<u>1,340,871</u>
Capital assets:	
Not being depreciated	1,034,801
Being depreciated (net)	16,250,681
Total capital assets	<u>17,285,482</u>
Other assets	
Bond discount and issuance costs (net of amortization)	323,000
Total assets	<u>\$ 20,650,713</u>
LIABILITIES	
Current liabilities	
Vouchers payable	\$ 2,082,360
Other current liabilities	108,256
Total current liabilities	<u>2,190,616</u>
Current liabilities payable from restricted assets	<u>588,832</u>
Noncurrent liabilities	
Bond indebtedness	6,130,000
Accrued compensated absences	121,397
Arbitrage rebate payable	20,449
Total noncurrent liabilities	<u>6,271,846</u>
Total liabilities	<u>9,051,294</u>
NET ASSETS	
Invested in capital assets, net of related debt	11,155,482
Restricted assets	752,039
Unrestricted (deficit)	(308,102)
Total net assets	<u>\$ 11,599,419</u>

The accompanying notes are an integral part of these financial statements.

**SOUTHEASTERN OAKLAND COUNTY
WATER AUTHORITY**

STATEMENT OF REVENUE, EXPENSES

AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2005

OPERATING REVENUES

Member municipalities water charges	\$ 12,678,880
Ready-to-serve charges	12,073
Rental income	85,044
Miscellaneous income	<u>5,415</u>

Total operating revenues	<u>12,781,412</u>
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OPERATING EXPENSES

Source of supply	10,054,864
Operating, maintenance and administrative	<u>2,144,907</u>

Total operating expenses	<u>12,199,771</u>
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Operating income before depreciation and amortization	581,641
Depreciation and amortization	<u>622,421</u>

Net operating income (loss)	<u>(40,780)</u>
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NONOPERATING REVENUES (EXPENSE)

Grant revenue	56,385
Interest income	24,375
Bond interest expense	<u>(227,663)</u>
Gain on disposition of capital assets	<u>-</u>

Total nonoperating revenue (expense)	<u>(146,903)</u>
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Change in net assets	(187,683)
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Net assets, beginning of year	<u>11,787,102</u>
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Net assets, end of year	<u><u>\$ 11,599,419</u></u>
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The accompanying notes are an integral part of these financial statements.

**SOUTHEASTERN OAKLAND COUNTY
WATER AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2005**

Cash flows from operating activities:	
Receipts from customers	\$ 12,520,929
Payments to related party	(485,717)
Payments to suppliers	(10,311,068)
Payments to employees	(965,835)
Net cash provided by operating activities	758,309
Cash flows from noncapital financing activities:	
Proceeds from operating grants	56,018
Cash flows from capital and related financing activities:	
Purchases of capital assets	(79,127)
Proceeds from the sale of capital assets	-
Principal paid on bond indebtedness	(475,000)
Interest and fees paid on bond indebtedness	(100,946)
Proceeds from bond issuance	-
Advance refunding on bond defeasance	-
Net cash used in capital and related financing activities	(655,073)
Cash flows from investing activities:	
Purchases of investments	
Interest received on investments	24,375
Net cash provided by (used in) investing activities	24,375
Net increase in cash and cash equivalents	183,629
Cash and cash equivalents, beginning of year	1,319,222
Cash and cash equivalents, end of year	\$ 1,502,851
Statement of net assets classification of cash and cash equivalents	
Cash and cash equivalents	\$ 161,980
Restricted assets	1,340,871
Total	\$ 1,502,851
Reconciliation of operating income to net cash provided by operating activities:	
Operating loss	\$ (40,780)
Adjustments to reconcile net operating loss to net cash provided by operating activities	
Depreciation and amortization	622,421
Decrease in accounts receivable	(197,367)
Decrease in other assets	(9,264)
Increase in vouchers payable and other liabilities	383,299
Total adjustments	799,089
Net cash provided by operating activities	\$ 758,309

The accompanying notes are an integral part of these financial statements.

SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY

Notes To Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Reporting Entity

The Southeastern Oakland County Water Authority (“the Authority” or “SOCWA”), was created in 1953 as a Michigan Public Corporation under Act Number 179 of the Michigan Public Acts of 1952. The Authority provides a water supply system primarily to eleven municipal communities in Oakland County, Michigan. The Authority is governed by a Board of Trustees, one member representing each constituent municipality. Principal funding for the Authority is derived from water charges to the member municipalities.

The Authority has followed the guidelines of the Governmental Accounting Standards Board’s Statement No. 14 and has determined that no entities should be consolidated into its financial statements as component units, entities for which the government is considered to be financially accountable. Therefore, the reporting entity consists of the primary government financial statements only.

B. Basis of Presentation - Government-Wide Statements

Government-wide financial statements. The statements of net assets and statement of revenues, expenses and changes in net assets report information on all of the activities of the primary government (the Authority). The Authority engages in only business-type activities. Business-type activities rely to a significant extent on fees and charges for services.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Proprietary fund financial statements. The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenue of the Authority’s enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Non-exchange transactions, in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants, entitlements and donations. On an accrual basis, revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements imposed by the provider have been satisfied.

SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY

Notes To Financial Statements

The Authority reports the following major proprietary fund:

Water. This fund accounts for the activities of the Authority's water system.

The financial statements of the Authority follow private-sector standards of accounting and financial reporting issued prior to December 1, 1989, unless those standards conflict with guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

Under the terms of grant agreements, the Authority funds certain programs by a combination of specific cost-reimbursement grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Authority's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

D. Assets, Liabilities and Equity

Deposits and investments

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

Investments are stated at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have established market values are reported at estimated fair value. Cash deposits are reported at carrying amounts, which reasonably approximates fair value.

Other assets

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as other assets in the financial statements.

SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY

Notes To Financial Statements

Restricted assets

Certain resources of the Authority are set aside for debt repayment and are classified as restricted assets on the statement of net assets because their use is limited to those types of expenses.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets are reported in the financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

The depreciation on these assets are charged as an expense against the operations on a straight-line basis over the estimated useful lives of the assets, which will range from five (5) to one hundred (100) years depending on the nature of the assets.

<u>Asset Type</u>	<u>Depreciable Life</u>
Pumping stations	10 – 50
Elevated tanks	10 – 50
Reservoirs	10 – 50
Scada system	10 – 40
Transmission mains and accessories	25 – 100
Meters	10 – 30
Webster office	10 – 25
Equipment and other assets	5 – 25

Compensated absences

The Authority allows union employees to accumulate unused vested sick leave. Once an employee has accumulated not less than 960 hours (120 days), they shall receive payment at the end of the next fiscal year for all unused sick leave credits earned during the immediately preceding fiscal year. Once an employee has accumulated not less than 480 hours (60 days) and no more than 960 hours (120 days), they receive payment at the end of the next fiscal year for half of all unused sick leave credits earned during the immediately preceding fiscal year. The Authority allows non-union employees to accumulate unused vested sick leave. Once an

SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY

Notes To Financial Statements

employee has accumulated not less than 480 hours (60 days), they shall receive payment at the end of the next fiscal year for all unused sick leave credits earned during the immediately preceding fiscal year.

II. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. Deposits, Investments and Securities Lending

Summary of Deposit and Investment Balances. Following is a reconciliation of deposit and investment balances as of June 30, 2005:

Statement of Net Assets	
Cash and cash equivalents	\$ 161,980
Restricted cash and cash Equivalents	<u>1,340,871</u>
Total	<u><u>\$ 1,502,851</u></u>

Deposits and Investments	
Bank deposits (checking accounts, savings accounts and CDs)	\$ 710,918
Investments in pooled investments and similar vehicles	791,583
Cash on hand	<u>350</u>
Total	<u><u>\$ 1,502,851</u></u>

The Authority chooses to disclose its investments by specifically identifying each. As of year-end, the Authority had the following deposits and investments:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Pooled investment	n/a	<u>\$ 791,583</u>	Unrated
Total		<u><u>\$ 791,583</u></u>	

SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY

Notes To Financial Statements

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in note 1 of the summary of significant accounting policies. The Authority investment policy does not have specific limits in excess of State law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to specific government securities, certificates of deposit and bank accounts with qualified institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in Note I-D. The Authority's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment, if available, are identified above for investments held at year-end.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. State law does not require and the Authority does not have a policy for deposit custodial credit risk. As of year-end, \$620,215 of the total \$720,215 bank balance was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Authority does not have a policy for investment custodial credit risk. The Authority's total investments of \$791,583 are in short-term investment pools that are registered with the Securities Exchange Commission (the "SEC"). The investment pools operate in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares. The short-term investments are not required to be classified according to custodial credit risk since they are not evidenced by securities that exist in physical or book entry form.

B. Receivables

Receivables consist of amounts due from member communities and other water sales customers. These receivables are considered 100% collectable and as such, no allowance for uncollectible accounts has been established.

SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY

Notes To Financial Statements

C. Capital Assets

Capital assets activity for the year ended June 30, 2005 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated -				
Land	\$ 1,026,171	\$ -	\$ -	\$ 1,026,171
Construction in progress	29,627	8,630	(29,627)	8,630
Total capital assets not being depreciated	<u>1,055,798</u>	<u>8,630</u>	<u>(29,627)</u>	<u>1,034,801</u>
Capital assets, being depreciated:				
Pumping stations	3,539,683	2,705	(22,384)	3,520,004
Elevated tanks	1,978,997	-	-	1,978,997
Reservoirs	2,292,791	-	-	2,292,791
Scada system	1,718,187	-	-	1,718,187
Transmission mains and accessories	15,410,336	250,290	-	15,660,626
Meters	1,063,792	13,048	-	1,076,840
Webster office	268,254	25,181		293,435
Equipment and other assets	1,434,208	-	(2,772)	1,431,436
Total capital assets being depreciated	<u>27,706,248</u>	<u>291,224</u>	<u>(25,156)</u>	<u>27,972,316</u>
Less accumulated depreciation	<u>(10,933,270)</u>	<u>(813,522)</u>	<u>25,156</u>	<u>(11,721,636)</u>
Total capital assets being depreciated, net	<u>16,772,978</u>	<u>(522,298)</u>	<u>-</u>	<u>16,250,680</u>
Business-type activities capital assets, net	<u>\$ 17,828,776</u>	<u>\$ (513,668)</u>	<u>\$ (29,627)</u>	<u>\$ 17,285,481</u>

SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY

Notes To Financial Statements

D. Long-term Debt

The government issues bonds when the government pledges income derived from the construction or acquired assets to pay debt service. Revenue bonds outstanding are as follows:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Amount</u>
Business-type activities		
Series 2003 refunding bonds	2.25%-4.25%	<u>\$ 6,130,000</u>

	<u>Principal</u>	<u>Interest and Amortization</u>
2006	\$ 480,000	\$ 247,629
2007	575,000	233,229
2008	575,000	220,291
2009	600,000	205,054
2010	625,000	187,054
2011-2015	3,275,000	563,567
	<u>\$ 6,130,000</u>	<u>\$ 1,656,824</u>

Prior year advance refundings. During fiscal year 2004, the Authority issued \$6,980,000 in water supply system revenue refunding bonds and transferred \$6,918,500 to provide resources to purchase securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments on \$6,850,000 of refunded debt. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the Statement of Net Assets. This advanced refunding was undertaken to reduce total debt service payments by \$472,341. On June 30, 2005, \$6,475,000 remained outstanding.

SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY

Notes To Financial Statements

Changes in Long-Term Debt. Long-term liability activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities					
2003 refunding bonds	\$ 6,605,000	\$ -	\$ (475,000)	\$ 6,130,000	\$ 480,000
Bond discount, issuance costs and deferred loss	(357,216)		34,216	(323,000)	(34,217)
Accrued compensated Absences	118,028	3,369	-	121,397	-
Arbitrage rebate payable	20,449	-	-	20,449	-
	<u>\$ 6,386,261</u>	<u>\$ 3,369</u>	<u>\$ (440,784)</u>	<u>\$ 5,948,846</u>	<u>\$ 445,783</u>

E. Restrictions of Net Assets

Restricted net assets on the Statement of Net Assets are legally restricted for a specific purpose as imposed by sources outside of the Authority.

The schedule of restricted net assets is as follows:

	<u>Restricted Net Assets</u>
Surplus fund	\$ 20
Construction fund	330
Improvement fund	776
Operation and maintenance reserve	257
Replacement reserve	50,140
Bond reserve accounts	<u>1,289,347</u>
Total restricted cash	1,340,871
Less:	
Current liabilities from restricted cash	<u>(588,832)</u>
Total restricted net assets	<u>\$ 752,039</u>

SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY

Notes To Financial Statements

III. OTHER INFORMATION

A. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority is a member of the Michigan Municipal Risk Management Authority and the Michigan Municipal League sponsored self-insurance/public entity risk pools. The Authority pays annual premiums to the respective pools for general liability, property, auto, worker's compensation and employee fidelity insurance coverage. The agreements for the formation of the Michigan Municipal Liability and Property Fund and the Michigan Municipal Workers Compensation Fund provide that the pools will be self sustaining through member premiums and will reinsure through commercial companies for claims in excess of limitations imposed by the pool. Settled claims have not exceeded coverage in any of the past three years.

B. Related Party Transactions

The Authority has developed a cost sharing strategy for certain administrative salaries, operating expenses and capital asset expenses with the Southeastern Oakland County Resource Recovery Authority (SOCRRA). In addition to these shared costs, the Authority also charges and receives an annual office rental fee from SOCRRA in the amount of \$45,000. These cost sharing arrangements resulted in the Authority charging SOCRRA \$604,976 for the year ended June 30, 2005. As of June 30, 2005, the amount of payables due from SOCRRA was \$56,143.

C. Postretirement Benefits Other Than Pensions

Non-Union Employees

The Authority sponsors a retiree health care plan (the "Plan"). The plan is a defined contribution public retiree health care plan established effective January 1, 2002. The purpose of the plan is to accumulate funds to fully provide for the funding of health care benefits for the Authority's retirees and beneficiaries based on eligibility criteria established by the Board. Benefits under the plan are administered by I.C.M.A. and provided pursuant to a group contract issued by Blue Cross Blue Shield of Michigan. The Authority Board has the authority to establish and amend benefit provisions

At June 30, 2004 participants in the plan consisted of:

Retirees and beneficiaries currently receiving benefits	0
Active employees	<u>9</u>
Total	<u>9</u>

Employees contribute to the plan based upon eligible payroll. The contribution percentage for the year-ended June 30, 2005 was 5% resulting in contributions of \$25,268. Authority contributions

SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY

Notes To Financial Statements

are not required. A separate trust fund has been established for these assets and as such, these assets are not shown as part of the Authority's restricted assets.

Union Employees

The Authority provides postretirement health care benefits to union employees and their dependents as established by Board resolution. There are currently twenty three retirees and dependents whom receive these benefits. Expenses are recognized as insurance premiums become due and are netted against co-pays that are required from certain participants. During the year ended June 30, 2005 \$119,300 was recognized for postretirement health care.

D. Defined Benefit Pension Plan

Plan Description

The Authority's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Authority participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-7677.

All full-time Authority employees are eligible to participate in MERS. Service retirement benefits have a vesting period of 10, 15, 20 and 25 years of service depending on the employees age at retirement. Payment of benefits is based on the benefit program in effect as of the date of termination of membership. Payment is based on 2.25% for union employees and 2.5% for salaried employees, of the three-year final average compensation multiplied by credited years of service. These benefits are established by resolution of the Authority and negotiation with the collective bargaining unit representing union employees.

Funding Policy

The Authority is required to contribute at an actuarially determined rate; the rate for the valuation year ending December 31, 2004 is \$8,348 per month for union employees and 21.16% of annual covered payroll for salaried employees. Employees are currently not required to contribute to the Plan. The contribution requirements of the Authority are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the Authority or through negotiations with the collective bargaining unit representing union employees.

SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY

Notes To Financial Statements

Annual Pension Cost

For the year ended June 30, 2005, the Authority's annual pension cost of \$145,773 for MERS was equal to the Authority's required and actual contributions. The required contributions were determined as part of the December 31, 2002 actuarial valuations using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investments of present and future assets of 8.0% compounded annually, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 4.16% per year, depending on age, attributable to seniority/merit.

The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect market value. The Authority's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2004, the date of the latest actuarial valuation, was 30 years for salaried employees and 26 years for union employees.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/03	\$ 167,547	100%	\$ -
6/30/04	118,189	100%	-
6/30/05	145,773	100%	-

* * * * *

***REQUIRED SUPPLEMENTARY
INFORMATION***

**SOUTHEASTERN OAKLAND COUNTY
WATER AUTHORITY**

**REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)**

DEFINED BENEFIT PENSION PLAN INFORMATION

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/01	\$ 4,274,708	\$ 5,606,826	\$ 1,332,118	76%	\$ 1,198,129	111%
12/31/02	4,232,401	6,170,873	1,938,472	69%	1,221,613	159%
12/31/03	4,367,033	6,557,028	2,189,995	67%	1,235,987	177%
12/31/04	4,490,251	6,544,301	2,054,050	69%	1,275,452	161%

SUPPLEMENTARY SCHEDULES

**SOUTHEASTERN OAKLAND COUNTY
WATER AUTHORITY**

SCHEDULE OF BUDGET ANALYSIS

	July 1, 2004 to June 30, 2005		
	Budget	Actual	Variances Favorable (Unfavorable)
Revenue			
Sale of water	\$ 13,783,770	\$ 12,678,880	\$ (1,104,890)
Ready-to-serve charges	12,073	12,073	-
Grant revenue	36,000	56,385	20,385
Rental income	85,440	85,044	(396)
Interest on investments	12,000	24,375	12,375
Gain on disposition of fixed assets	-	-	-
Water analysis - laboratory and miscellaneous income	23,800	5,415	(18,385)
Total revenue	13,953,083	12,862,172	(1,090,911)
Operating expenses	13,111,403	12,199,771	911,632
Revenue in excess of operating expenses	841,680	662,401	(179,279)
Amount of bond interest and bond maturities			
Bond interest	227,663	227,663	-
Bond maturities	475,000	475,000	-
Total bond interest and bond maturities	702,663	702,663	-
Amount available (deficiency) for reserves and capital outla	\$ 139,017	\$ (40,262)	\$ (179,279)

SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY

SCHEDULE OF BUDGET OPERATING EXPENSES ANALYSIS

July 1, 2004 to June 30, 2005			
	Budget	Actual	Variances Favorable (Unfavorable)
Source of Supply			
Pump Station Operations			
Water purchased for resale	\$ 10,858,222	\$ 10,054,864	\$ 803,358
Meters			
Labor and supervision	31,674	18,312	13,362
Power and light	8,000	6,002	1,998
Cellular telephone	7,000	5,844	1,156
Maintenance	-	-	-
Maintenance of equipment	11,000	8,198	2,802
Maintenance of property and grounds	-	-	-
Total meters expense	57,674	38,356	19,318
Mains			
Labor and supervision	37,400	26,827	10,573
Maintenance	15,000	10,177	4,823
Maintenance and equipment	-	343	(343)
Contract services	-	-	-
Miss Dig	9,500	8,146	1,354
Total mains expense	61,900	45,493	16,407
Webster			
Pump Station Operations			
Labor and supervision	341,474	423,542	(82,068)
Utilities	6,000	8,300	(2,300)
Power and light	45,000	41,075	3,925
Telephone	5,500	126	5,374
Maintenance of equipment	9,000	8,020	980
Maintenance of building	8,000	11,697	(3,697)
Maintenance of property and grounds	5,000	6,832	(1,832)
Supplies	15,000	8,995	6,005
Total Webster pump station expense	434,974	508,587	(73,613)
Reservoirs Operations			
Labor and supervision	-	348	(348)
Maintenance	1,000	896	104
Total Webster reservoirs expense	1,000	1,244	(244)

Continued....

SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY

SCHEDULE OF BUDGET OPERATING EXPENSES ANALYSIS

July 1, 2004 to June 30, 2005			
	Budget	Actual	Variances Favorable (Unfavorable)
Tank Operation			
Labor and supervision	\$ -	\$ -	\$ -
Maintenance	750	395	355
Total Webster tank expense	750	395	355
Computer operations			
Labor and supervision	8,768	18,428	(9,661)
Utilities	3,000	1,815	1,185
Maintenance	4,000	4,375	(375)
Computer software maintenance	10,000	4,608	5,392
Scada maintenance	-	-	-
Total Webster computer expense	25,768	29,226	(3,459)
Purification			
Labor and supervision	37,549	40,304	(2,755)
Maintenance of equipment	500	-	500
Supplies	15,000	14,715	285
Total Webster purification expense	53,049	55,019	(1,970)
Transportation			
Labor and supervision	19,407	2,967	16,440
Maintenance	-	227	(227)
Maintenance and equipment	10,000	11,372	(1,372)
Fuel	20,000	18,712	1,288
Total Webster transportation expense	49,407	33,278	16,129
Total Webster expense	564,948	627,749	(62,801)
Shafter			
Pump Station Operations			
Labor and supervision	13,477	10,830	2,647
Utilities	3,000	3,487	(487)
Power and light	20,000	4,076	15,924
Telephone	625	619	6
Maintenance of equipment	5,500	1,580	3,920
Maintenance of property and grounds	2,500	251	2,249
Total Shafter expense	45,102	20,843	24,259

Continued....

SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY

SCHEDULE OF BUDGET OPERATING EXPENSES ANALYSIS

July 1, 2004 to June 30, 2005			
	Budget	Actual	Variances Favorable (Unfavorable)
Lamb			
Pump Station Operations			
Labor and supervision	\$ 13,477	\$ 10,464	\$ 3,013
Utilities	3,000	2,492	508
Power and light	30,000	18,144	11,856
Telephone	625	311	314
Maintenance of equipment	5,000	714	4,286
Maintenance of building	2,000	18	1,982
Maintenance of property and grounds	500	-	500
Total Lamb expense	<u>54,602</u>	<u>32,143</u>	<u>22,459</u>
12 Mile Meter			
Meter Station Operations			
Labor and supervision	12,177	17,148	(4,971)
Utilities	1,000	1,749	(749)
Power and light	500	390	110
Telephone	325	299	26
Maintenance of equipment and supplies	2,000	76,711	(74,711)
Maintenance of building	1,000	178	822
Maintenance of property and grounds	500	103	397
Total 12 Mile meter expense	<u>17,502</u>	<u>96,578</u>	<u>(79,076)</u>
Gare			
Pump Station Operations			
Labor and supervision	26,377	21,535	4,842
Utilities	4,000	3,481	519
Power and light	13,000	9,704	3,296
Telephone	325	300	25
Maintenance of equipment	5,000	1,957	3,043
Maintenance of building	1,000	80	920
Maintenance of property and grounds	700	2,398	(1,698)
Total Gare pump station expense	<u>50,402</u>	<u>39,455</u>	<u>10,947</u>
Reservoirs			
Labor	-	83	(83)
Maintenance of equipment	<u>500</u>	<u>-</u>	<u>500</u>
Total Gare resevoirs expense	<u>500</u>	<u>83</u>	<u>417</u>
Total Gare expense	<u>50,902</u>	<u>39,538</u>	<u>11,364</u>

Continued....

SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY

SCHEDULE OF BUDGET OPERATING EXPENSES ANALYSIS

July 1, 2004 to June 30, 2005			
	Budget	Actual	Variances Favorable (Unfavorable)
Oliver			
Pump Station Operations			
Labor and supervision	\$ 10,834	\$ 14,853	\$ (4,019)
Utilities	1,500	1,746	(246)
Power and light	2,000	1,344	656
Telephone	325	337	(12)
Maintenance of equipment	2,000	1,252	748
Maintenance of building	1,000	1,062	(62)
Maintenance of property and grounds	1,000	174	826
Total Oliver expense	<u>18,659</u>	<u>20,768</u>	<u>(2,109)</u>
14 Mile/Lasher			
Meter Station Operations			
Labor and supervision	7,627	3,155	4,472
Utilities	-	-	-
Power and light	1,500	225	1,275
Maintenance	-	1,430	(1,430)
Maintenance of equipment	2,000	260	1,740
Maintenance of property and grounds	-	-	-
Total 14 Mile/Lasher expense	<u>11,127</u>	<u>5,070</u>	<u>6,057</u>
Quarton/Cummings			
Meter Station Operations			
Labor and supervision	6,888	2,151	4,737
Maintenance	500	130	370
Maintenance of equipment	500	-	500
Total Quarton/Cummings expense	<u>7,888</u>	<u>2,281</u>	<u>5,607</u>
14 Mile Tank and Pump Station			
Pump Station Operations			
Labor and supervision	21,999	20,074	1,925
Utilities	1,000	2,005	(1,005)
Power and light	7,000	6,552	448
Telephone	325	328	(3)
Maintenance of equipment	3,000	4,432	(1,432)
Maintenance of building	500	209	291
Maintenance of property and grounds	2,000	5,548	(3,548)
Total 14 Mile tank and pump expense	<u>35,824</u>	<u>39,148</u>	<u>(3,324)</u>

Continued....

SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY

SCHEDULE OF BUDGET OPERATING EXPENSES ANALYSIS

July 1, 2004 to June 30, 2005			
	Budget	Actual	Variances Favorable (Unfavorable)
Reservoir Operations			
Labor and supervision	\$ -	\$ 492	\$ (492)
Maintenance	500	395	105
Total 14 Mile reservoir expense	500	887	(387)
Tank Operations			
Labor and supervision	-	605	(605)
Supplies	-	-	-
Maintenance	500	481	19
Maintenance of equipment	-	114	(114)
Total 14 Mile tank expense	500	1,200	(700)
Total 14 Mile expense	36,824	41,235	(4,411)
Samoset			
Tank Operations			
Labor and supervision	12,735	9,525	3,210
Utilities	825	734	91
Power and light	350	534	(184)
Maintenance of equipment	1,000	395	605
Maintenance of property and grounds	750	392	358
Total Samoset expense	15,660	11,580	4,080
Buchanan			
Pump Station Operations			
Labor and supervision	19,243	8,515	10,728
Utilities	1,500	102	1,398
Power and light	1,000	117	883
Telephone	325	288	37
Maintenance of equipment	2,000	36	1,964
Maintenance of building	500	221	279
Maintenance of property and grounds	250	-	250
Total Buchanan pump expense	24,818	9,279	15,539
Reservoir Operations			
Labor	-	60	(60)
Maintenance	500	-	500
Total Buchanan reservoir expense	500	60	440
Total Buchanan expense	25,318	9,339	15,979

Continued....

SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY

SCHEDULE OF BUDGET OPERATING EXPENSES ANALYSIS

July 1, 2004 to June 30, 2005			
	Budget	Actual	Variances Favorable (Unfavorable)
Engineering			
Transportation			
Maintenance and equipment	\$ -	\$ -	\$ -
Fuel	-	1,940	(1,940)
Total engineering transportation expense	-	1,940	(1,940)
Administrative			
Labor and supervision	84,930	92,676	(7,746)
Administrative and office	2,000	2,915	(915)
Personnel improvement	1,000	105	895
Travel, conference	1,000	633	367
Total engineering administrative expense	88,930	96,329	(7,399)
Total engineering expense	88,930	98,269	(9,339)
Administrative and General			
Labor and supervision	276,082	226,310	49,772
Administrative and office	50,000	96,019	(46,019)
Personnel improvement	3,000	2,694	306
Travel, conference	2,000	888	1,112
Telephone - office	16,000	11,435	4,565
Legal	9,600	2,400	7,200
Audit	8,000	9,900	(1,900)
Contracted services	-	-	-
Social security	93,800	84,823	8,977
Retirement plan	210,000	159,157	50,843
Insurance			
General	66,612	65,328	1,284
Group	409,800	313,024	96,776
Worker's Compensation	13,600	13,715	(115)
Permit and bonds	1,000	7,557	(6,557)
Grant expense	36,000	61,915	(25,915)
Public education	-	-	-
Paying agent	650	500	150
Total administrative expense	1,196,144	1,055,665	140,479
Total Operating Expenses	\$ 13,111,403	\$ 12,199,771	\$ 911,632

SOUTHEASTERN OAKLAND COUNTY WATER AUTHORITY

SCHEDULE OF ACCOUNTS RECEIVABLE AND ANALYSIS OF CHARGES

	Accounts Receivable Balance July 1, 2004	Water Consumption (1M Cubic Feet)	Total Water Charges	Ready-To- Serve Charges	Total Billing For Year	Amount Due at Beginning of Year Plus Billing For Year	Total Paid	Accounts Receivable Balance June 30, 2005
Municipalities								
Berkley	\$ 54,439	62,091	\$ 586,757	\$ -	\$ 586,757	\$ 641,196	\$ 584,253	\$ 56,943
Beverly Hills	48,837	61,321	579,480	-	579,480	628,317	556,714	71,603
Village of Bingham Farms	14,437	14,689	138,810	3,018	141,828	156,265	136,456	19,809
Birmingham	112,120	129,745	1,226,086	-	1,226,086	1,338,206	1,194,558	143,649
Clawson	39,931	47,458	448,482	-	448,482	488,413	442,108	46,305
Huntington Woods	23,542	27,910	263,753	-	263,753	287,295	255,649	31,646
Lathrup Village	18,632	22,119	209,023	-	209,023	227,655	205,495	22,159
Pleasant Ridge	23,910	26,689	252,208	-	252,208	276,118	258,314	17,804
Royal Oak	262,371	312,073	2,949,091	-	2,949,091	3,211,462	2,898,809	312,653
Southfield	497,515	612,203	5,785,314	9,055	5,794,368	6,291,883	5,642,313	649,570
Rackham Golf Course	1,219	1,241	11,727	-	11,727	12,946	8,847	4,099
Detroit Zoo	42,149	24,143	228,150	-	228,150	270,299	246,955	23,344
Total	<u>\$ 1,139,102</u>	<u>1,341,680</u>	<u>\$ 12,678,880</u>	<u>\$ 12,073</u>	<u>\$ 12,690,953</u>	<u>\$ 13,830,055</u>	<u>\$ 12,430,470</u>	<u>\$ 1,399,585</u>

**SOUTHEASTERN OAKLAND COUNTY
WATER AUTHORITY**

SCHEDULE OF WORKING CAPITAL ANALYSIS

	June 30	
	2005	2004
Total current unrestricted assets	\$ 1,701,360	\$ 1,403,973
Less: Current unrestricted liabilities	2,190,616	1,810,686
Total working capital	(489,256)	(406,713)
Annual operating expenses	12,199,771	11,492,485
Percentage of working capital to annual operating expense	<u>-4.01%</u>	<u>-3.54%</u>



REHMANN ROBSON

Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS**

September 22, 2005

To the Honorable Members of the Board
Southeastern Oakland County
Water Authority
Oakland County, Michigan

We have audited the basic financial statements of the of the *Southeastern Oakland County Water Authority* as of and for the year ended June 30, 2005, and have issued our report thereon dated September 22, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the *Southeastern Oakland County Water Authority's* internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the *Southeastern Oakland County Water Authority's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management and members of the Board and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, looped 'L' at the beginning.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

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September 22, 2005

To the Members of the Board
Southeastern Oakland County
Water Authority
Royal Oak, Michigan

In planning and performing our audit of the basic financial statements of the ***Southeastern Oakland County Water Authority*** for the year ended June 30, 2005, we considered the Authority's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the basic financial statements and not to provide assurance on the internal control structure.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated September 22, 2005, on the basic financial statements of the ***Southeastern Oakland County Water Authority***.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Authority personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist the Authority in implementing the recommendations.

We would like to thank the staff and management of the ***Southeastern Oakland County Water Authority*** for their assistance and cooperation in completing the audit.

A.) CAPITAL ASSETS SUBSIDIARY LEDGER

During our audit we noted that the subsidiary ledger for capital assets did not trace directly to the general ledger control accounts by the categories as described in the notes to the financial statements. We did however note that the total of capital assets in the subsidiary ledger tied in total to the control accounts in the general ledger.

Recommendation

We would recommend that the Authority consider grouping capital assets by category in which it desires to display in the notes to the financial statements. In addition we would recommend that the Authority consider establishing general ledger control accounts for both cost and accumulated depreciation for these categories. We believe that this will aide the Authority in reconciling capital assets at year end and to simplify and expose any areas in which the subsidiary ledger does not trace to the general ledger.

B.) POSTEMPLOYMENT BENEFITS PLANS OTHER THAN PENSIONS

In April 2004 the Governmental Accounting Standards Board issued Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension Plans*.

The standard will take effect in the 2009-2010 fiscal year and requires the Authority to obtain an actuarial valuation of its postemployment benefits other than pension plans, establish a separate trust or equivalent for these benefits and begin funding this long-term obligation based on the actuarially determined required contribution amount.

Recommendation

We would recommend that the Authority consider the future financial impact on the Authority by obtaining an actuarial study or have management prepare an estimation of what the required contributions will be as compared to the current "pay as you go" method that the Authority currently employs.

There are many things that the Authority can do to mitigate the financial impact with proper planning and an early action plan. This includes beginning to pre-fund this liability which will ultimately reduce the actuarially required contributions at the time of implementation. In addition, the Authority may consider eliminating or offering an alternative benefit such as a defined contribution plan in lieu of a defined benefit plan for postemployment benefits other than pensions to new employees.